

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Telecommunications Division
Public Programs Branch**

**RESOLUTION T-16878
February 10, 2005**

RESOLUTION

Resolution T-16878. Approval of the California Teleconnect Fund (CTF) Administrative Committee Fund Budgets for Revised FY 04-05 and FY 2005-06 to Comply with the Requirements of Public Utilities Code Sections 270-281, Adoption of a Billing Base for the Purpose of Establishing the CTF Surcharge and Adoption of CTF Surcharge.

Summary

This resolution adopts a budget of \$21,092,000 for fiscal year (FY) 2005-06 and a revised budget of \$17,974,000 for FY 2004-05 for the CTF Administrative Committee Fund. This resolution adopts a .22% surcharge to meet the revenue requirements of the CTF Administrative Committee Fund. This resolution adopts a CTF billing base of \$18,441,522,000 for FY 04-05 and \$18,828,692,000 for FY 05-06.

On July 9, 2004, the California Teleconnect Fund (CTF) Administrative Committee (AC) filed with the Executive Director of the California Public Utilities Commission its proposed budget for July 1, 2005 through June 30, 2006.

Background

The California Teleconnect Fund was implemented under Decision (D.) 96-10-066 on October 25, 1996. In this decision, the Commission reaffirmed its commitment to universal service, and in accordance with state and federal directives, created the CTF to provide discounted rates for a family of telecommunications services for schools and libraries, government-owned health care providers and qualifying community based organizations.

In October 1999, PU Code sections 270-281 were codified as a result of the enactment of Senate Bill (SB) 669 (Stats. 1999, Chapter 677). Section 270(b) requires that the monies in the CTF and five other funds may only be expended pursuant to sections 270-281 and upon appropriation in the annual Budget Act.

On July 9, 2004 the CTF-AC submitted a letter request to the Executive Director seeking the approval of the July 1, 2005 through June 20, 2006 budget of \$21.244 million. This budget request was filed in accordance with Paragraph 4.1 of the CTF-AC charter.

On July 31, 2004, the Governor signed the 2004-05 budget. This budget did not include an appropriation for the CTF. On September 28, 2004, SB 1276 was approved by the legislature and signed by the Governor. SB 1276 restored the appropriation for the CTF in the amount of \$17,974,000.

Notice/Protests

Notice of the AC's budget letter request was published in the Commission Daily Calendar of September 13, 2004. The Telecommunications Division received no protest to the letter request.

Discussion

In this Resolution, the Commission adopts the following:

- The CTF program budget for FY 2005-06 in the amount of \$21,092,000
- The revised budget for FY 04-05 in the amount of \$17,974,000.
- Adopts a CTF billing base for FY 04-05 of \$18,441,522,000.
- Adopts a CTF billing base for FY 05-06 of \$18,828,692,000.
- Surcharge rate of .22% based on the billing base adopted in this resolution of \$18,441,522,000 for FY 2004-05.

Appendix A of this resolution shows the revised FY 2004-05 CTF budget to conform to the appropriation approved by SB 1276.

Appendix B of this resolution shows the FY 2005-06 CTF budget as proposed by TD and by the CTF Administrative Committee in June 2004. The FY 05-06 budget differs from the FY 04-05 budget in that it is a realistic estimate of anticipated program expenses. The FY 04-05 budget was set by the legislature without consideration of program expenses in addition to claim payments. The FY 05-06 budget includes enough funds to pay for audits, state overhead, outreach expenses and committee expenses. Of TD's \$21.092 million proposed budget for FY 2005-06, \$18.1 million is for claim payments submitted by the carriers providing CTF discounted services, \$1.2 million for financial,

compliance and surcharge remittance audits, \$50,000 for banking fees, \$32,000 for Advisory Committee expenses, \$610,000 for Administrative/Staff Costs, \$850,000 for inter-agency, programming and maintaining the electronic and monitoring systems, and \$250,000 is for program outreach.

The forecasted billing bases for fiscal years 2004-05 and 2005-06 are \$18,441,522,000 and \$18,828,692,000, respectively. The estimated billing bases for fiscal years 2004-05 and 2005-06 are based on the actual telecommunications surcharge revenue remittances for FY 2003-04 and the September 2004 UCLA forecast of the annual growth of Personal Income in California. The derived forecasts of annual growth are 5.4% and 5.6% for fiscal years 2004-05 and 2005-06, respectively. These billing base forecasts are also adjusted for the Voice Over Internet Protocol (VOIP) impact on telecommunications intra state revenues. It is anticipated that revenues will decrease or not increase at as great a rate in the past due to shifts from technologies that are subject to surcharge – wireline and wireless – to VOIP, which is exempt from surcharges. The forecasted billing bases for fiscal years 2004-05 and 2005-06 are adjusted downward for the effect of VOIP of 9.5% and 12% for fiscal years 2004-05 and 2005-06, respectively.

In this Resolution, the Commission adopts a 0.22% CTF surcharge effective March 1, 2005. This surcharge was developed using the billing base as adopted in this resolution and the estimate of remaining program expenses and obligations from periods in FY 02-03 and FY 03-04 to carriers who have provided discounts to CTF customers and obligations from FY 04-05 anticipated prior to August 1, 2005. The surcharge rate of 0.22% is applied to the billing base of \$18,441,522,000 to generate monthly revenues of approximately \$3.38 million.

Estimates program expenses and obligations requiring payment by August 2005 are \$1.7 million for FY 02-03, \$7.2 million for FY 03-04 and \$11 million for FY 04-05, for a total amount of \$19.9 million. TD's budget recommendations differ from the CTF-AC's budget in the amount set aside for audits, a difference of \$150,000. TD is using estimates that are more current than those available to the CTF-AC, and believes that these estimates are more accurate. These outstanding obligations were projected using data from claims currently on file and available for payment and estimates based on past claims of what reasonably can be expected to be filed during the remainder of FY 04-05.

Remaining expenses for FY 02-03 and FY 03-04, of \$1.7 million and \$7.2 million respectively, are within the appropriation set for these fiscal years. Appendix C of this resolution shows the remaining spending authority for these fiscal years per the State Controller's Office on October 31, 2004, the amounts expended between October 31, 2004 and today's date and the additional amounts anticipated for these fiscal years.

In this Resolution, the Commission adopts a 0.22% CTF surcharge until further revised by the Commission. Most of the funds raised by this surcharge -- \$11 million -- are necessary to pay FY 04-05 expenses that will arise during FY 04-05. TD is using a six month period to raise the required funds because attempting to collect these funds prior to June 30, 2005—a four month amortization -- would raise the surcharge to a level that is inconsistent with the long term needs of the fund.

Modified Advice Letter Filings

By Resolution T-16901, December 2, 2004, the Commission modified the current tariff process for revising telecommunications Public Programs surcharge rates. The new process requires all certificated carriers filing tariffs with the Commission to file a generic tariff reference to Pacific Bell (DBA SBC California) tariffs for the list of Public Program surcharge rates and the Reimbursement Fee. This process change is effective with surcharge rates and reimbursement fees implemented on January 1, 2005 and thereafter, until further revised by the Commission.

In compliance with the modified tariff process, only SBC should file an Advice letter on or before February 22, 2005, modifying the CTF surcharge rate from 0.16% to 0.22%, effective March 1, 2005 and thereafter, until further revised by the Commission. The other certificated carriers, who file tariffs with the Commission, will not have to file an Advice Letter reflecting the new surcharge rate of 0.22% effective on March 1, 2005 and thereafter. Pursuant to Ordering paragraph #1 of Resolution T-16901, these carriers should have already cross-referenced any future changes in the Public Program surcharges, including the CTF, to the SBC tariff. Concurring carriers are required to implement on their intrastate billings the new CTF surcharge rate change from 0.16% to 0.22% on March 1, 2005 and thereafter, until further revised by the Commission.

Finally, all other carriers who do not file tariffs with the Commission must ensure that the revised surcharge rate of 0.22% on their intrastate billing is implemented starting March 1, 2005, and will continue thereafter, until further revised by the Commission.

Notice of Availability and Comments

In compliance with PU Code Section 311(g), the Commission had served a hard copy of prior resolutions regarding CTF budgets on all telecommunications carriers and the

parties of record in R. 95-10-020/I95-01-021. To be consistent with the Commission's commitment to utilize the Internet for distributing Commission orders and information, the Telecommunications Division e-mailed a notice letter informing

telecommunications carriers serving CTF customers, members of the California Teleconnect Fund Administrative Committee, and the parties of record in R. 95-01-020/I95-01-021 on the availability of this draft resolution as well as the conformed resolution, when adopted by the Commission, on the Commission web-site, www.cpuc.ca.gov/static/industry/telco/resolutions/index.htm.

Comments received on a timely basis will be addressed by the Telecommunications Division in this resolution.

Findings

1. In October 1999, Public Utilities Code (PU) Code Sections 270-281 were codified as a result of the enactment of Senate Bill 669.
2. PU Code Section 270(b) requires that the monies in California Teleconnect Fund (CTF) Administrative Committee Fund may only be disbursed pursuant to Sections 270-281 and upon appropriation in the annual Budget Act.
3. Resolution T-16782 dated December 18, 2003 adopted a Fiscal Year 2004-05 budget of \$38.682 million.
4. The CTF appropriation for FY 2004-05 was set at \$17.974 million.
5. The revised FY 2004-05 CTF budget of \$17.924 million, as set forth in Appendix A of this resolution, conforms to the FY 2004-05 CTF appropriation and should be adopted.
6. On July 9, 2004, the CTF Administrative Committee (AC) submitted a letter request to the Executive Director seeking the approval of the CTF Fiscal Year (FY) 2005-06 budget of \$21.242 million.
7. The Telecommunications Division's proposed CTF Fiscal Year 2005-06 budget of \$21.092 million is reasonable and should be adopted.
8. The revised CTF billing base for FY 04-05 of \$18,441,522,000 is reasonable and should be adopted.
9. The CTF billing base for FY 05-06 of \$18,828,692,000 is reasonable and should be adopted.
10. A CTF surcharge level of 0.22% is necessary to fund the estimated obligations from FY 02-03, FY 03-04 and FY 04-05 for the next six months.

11. Expended and anticipated program expenses from FY 02-03 and FY 03-04 are within the limits set by the annual state budget act.
12. The CTF surcharge of .22% is reasonable and should be adopted.
13. In compliance with Resolution T-16901, dated December 2, 2004, only SBC should file and Advise Letter on or before February 22, 2005, modifying the CTF surcharge rate from 0.16% to 0.22%, effective March 1, 2005 and thereafter, until further revised by the Commission.
14. In compliance with Ordering Paragraph #1 of Resolution T-16901, the modified AL filing requires all other carriers who file tariffs with the Commission to cross reference to SBC's revised tariffs for the new surcharge rates effective on March 1, 2005 and thereafter.
15. All certificated telecommunications carriers in California should apply this surcharge rate on their end-user bills rendered on and after March 1, 2005 until further revised by the Commission.
16. Telecommunications carriers serving CTF customers, members of the California Teleconnect Fund Administrative Committee, and the parties of record in R. 95-01-020/I95-01-021 were informed of the availability of the draft resolution as well as the conformed resolution, when adopted by the Commission, on the Commission web-site, www.cpuc.ca.gov.

THEREFORE, IT IS ORDERED that:

1. The revised California Teleconnect Fund (CTF) Fiscal Year (FY) 2004-05 budget of \$17,974,000, as shown in Appendix A of this resolution, is adopted.
2. The CTF FY 2005-06 budget of \$21,092,000 as set forth in Appendix B of this resolution is adopted.
3. The CTF billing bases of \$18,441,522,00 for Fiscal Year 2004-05 and \$18,828,692,000 for Fiscal Year 2005-06 are adopted
4. The CTF surcharge of 0.22% is adopted.
5. In compliance with Resolution T-16901, dated December 2, 2004, SBC shall file an Advice Letter on or before February 22, 2005, modifying the surcharge rate for the

CTF from 0.16% to 0.22%, effective March 1, 2005 and thereafter, until further revised by the Commission.

6. The modified surcharge AL filing requires all other carriers who file tariffs with the Commission to cross-reference to SBC's revised tariffs for the new surcharge rates effective on January 1, 2005 and thereafter.
7. Telecommunications carriers certified in California are ordered to revise the CTF surcharge from the current level of 0.16% to 0.22% effective March 1, 2005.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on February 10, 2005. The following Commissioners approved it:

STEVE LARSON
Executive Director

Appendix A

| PUBLIC PROGRAM EXPENSE BUDGET | | | | |
|----------------------------------------------------------------|----------------------------------------------------------|---------------------------------------------------------------------------------------------|-------------------------------------------|--|
| FOR FISCAL YEAR 2004-2005 (July 1, 2004 through June 30, 2005) | | | | |
| | | | | |
| | California Teleconnect Fund | (All \$ in 000's) | | |
| | PROGRAM EXPENSES | FY 04-05 Adopted as part of Res. T-16782, December 18, 2003 (\$ in 000's) | Fiscal Year '04-05 Revised | |
| a | Carrier Claims | \$35,203 | \$14,956 | |
| b | Interest for Untimely Payment | \$100 | \$5 | |
| c | Administrative Committee-Per Diem | \$5 | \$5 | |
| d | Administrative Committee-Travel and Others | \$6 | \$6 | |
| e | Administrative Committee-Special Needs Accommodation and | \$15 | \$15 | |
| f | Financial Audit | \$100 | \$15 | |
| j | Compliance Audit | \$500 | \$500 | |
| h | Surcharge Remittance Audit | \$600 | \$600 | |
| i | Claim Audit | \$900 | \$900 | |
| j | Banking Fee | \$23 | \$23 | |
| k | Interagency Cost | \$771 | \$771 | |
| l | CPUC Staff Costs | \$159 | \$158 | |
| m | Programming and Document Storage | \$50 | \$20 | |
| n | Outreach | \$250 | | |
| o | Total Program Expenses (sum of a thru p) | \$38,682 | \$17,974 | |
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APPENDIX B

| California Teleconnect Fund | | | TD Proposed | Adopted | | |
|-------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------|--------------|---------------|-----------------------|--|--|
| PUBLIC PROGRAM BUDGET DEVELOPMENT (\$000s) | | Submitted by | FY 05-06 | FY 05-06 | | |
| FOR FISCAL YEAR 2005-2006 (July 1, 2005 through June 30, 2006) | | the CTF-AC | (\$ in 000's) | (\$ in 000's) | | |
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| | | | | | | |
| 6 PROGRAM EXPENSES | | | | | | |
| a | Carrier Claims | 18,000 | \$18,000 | \$18,000 ¹ | | |
| b | Interest for Untimely Payment | \$100 | \$100 | \$100 | | |
| c | Administrative Committee-Per Diem | 6 | \$4 | \$4 ² | | |
| d | Administrative Committee-Travel and Others | 34 | \$21 | \$21 ² | | |
| e | Administrative Committee-Special Needs Accommodation | 12 | \$7 | \$7 ² | | |
| f | Financial Audit | \$100 | \$100 | \$100 | | |
| g | Compliance Audit | \$500 | \$300 | \$300 | | |
| h | Surcharge Remittance Audit | \$600 | \$400 | \$400 | | |
| i | Claim Audit | \$900 | \$400 | \$400 | | |
| j | Banking Fee | \$23 | \$50 | \$50 ³ | | |
| k | Interagency Cost | \$463 | \$800 | \$800 ⁴ | | |
| l | CPUC Staff Costs | \$224 | \$610 | \$610 ⁵ | | |
| m | Programming and Document Storage | \$50 | \$50 | \$50 ⁶ | | |
| n | Outreach | 230 | \$250 | \$250 | | |
| o | Total Program Expenses (sum of a thru o) | \$21,242 | \$21,092 | \$21,092 | | |
| | | | | | | |
| 1. Based on historical records of carrier reimbursement claims. | | | | | | |
| 2. Pursuant to D. 02-04-059, per diem and other costs are authorized for four meetings for members of the California Teleconnect Fund AC. | | | | | | |
| 3. Costs for lockbox for CTF surcharge remittances from carriers. | | | | | | |
| 4. Refers to pro-rata costs assessed to the CTF from DOF, DGS, State Personnel Board, SCO and other state agencies. | | | | | | |
| 5. Staff expenses incurred on behalf of the CTF by TD, Fiscal and Legal. | | | | | | |
| 6. Expense for SQL programming and development of the electronic filing and monitoring system. | | | | | | |
| 7. Additional note: \$150M loaned to the general fund per '03-04 Budget Act | | | | | | |
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APPENDIX C

| | | | |
|-------------------------------------------------------------------------|----------------|--|---------------|
| CTF Program Expenditures Compared to Appropriation Levels | | | |
| Using State Controllers Office Agency Reconciliation Report of 10/31/04 | | | |
| | FY 02-03 | | FY 03-04 |
| Remaining Expenditure Authorization as of 10/31/04 | 151,501,266.47 | | 34,888,981.65 |
| Claim Payments made since 10/31/04 | 6,554,389.91 | | 4,616,085.31 |
| Amount Projected in this resolution | 1,710,863.00 | | 7,201,393.00 |
| Remaining Expenditures Authorized by State Budget | 143,236,013.56 | | 23,071,503.34 |